

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

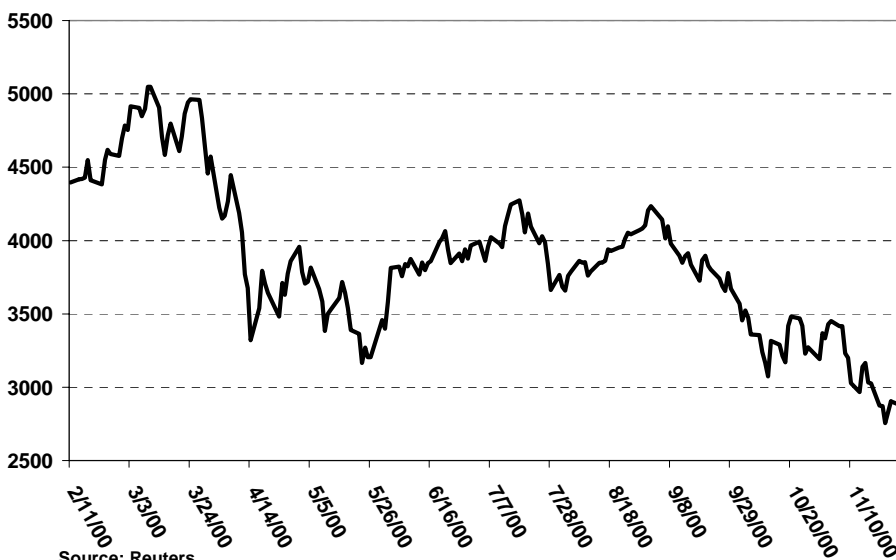
DIVISION OF FINANCIAL MANAGEMENT

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**From Dot-Com to Not-Com.** Over the last few months, the so-called "New Economy" has been looking more like the "Old Economy." You remember the New Economy—the one where the hottest companies' addresses started with www. It was believed that somehow old economic rules no longer applied. Instead, it seemed that all a company needed to do was attach .com to its name to guarantee success. It now appears the paradigm has once again shifted under these companies. The first lesson these wunderkind businesses have learned has more to do with Sir Isaac Newton than Adam Smith. Namely, on this planet, what goes up must come down. Last October, the high-tech laden NASDAQ index began to surge, going from about 3,000 to 5,000 in the spring of 2000. However, like the fabled ruler, this sector's reversal of fortune came when it was observed that the emperor had no clothes. The surge in

high-tech stock prices was fueled more by promotion and speculation than fundamentals. But the speculative bubble collapsed when there were no profits (an old economy concept) to support it. The ride lasted about a year; the NASDAQ dropped below 3,000 this November. One would expect some of the startups to be hard hit, but the fallout has spread to even the most stable high-tech companies. For example, industry giant Microsoft saw its stock price tumble from just under \$120 per share late last year to under \$50 per share this fall. And it was one of the lucky ones. Pets.com, a leading E-tailer of pet products, closed its virtual doors in November 2000 after failing to raise capital or to find a buyer for its operations.

### NASDAQ Composite Index Daily Closing Price



**Internet Challenges.** No one doubts that the high-tech sector will continue to impact the economy. However, the high-tech stock price retreat has caused some to rethink the role this sector will play in the near future. One of the most important aspects is the impact E-commerce will have on local retailers. At the height of the Internet gold rush, it was estimated half of main street business would fall victim to competition from Internet sellers. Why are Internet companies expected to make such inroads? One of the reasons is they have a tax advantage. Internet companies are not required to collect sales taxes from their customers unless the company has a significant presence in a state. The tax is still due from the customer in the form of use taxes, but these taxes are hard to enforce. Thus, the Internet sale is often tax-free. Some consumers would also be hurt. The sales tax takes a larger bite out of low-income budgets than higher income budgets. Since Internet access tends to rise with income, higher income households would be in a better position to make "tax free" purchases. Of course, lost sales tax receipts would directly affect state coffers. This is not yet a major problem because Internet sales are still a miniscule portion of total retail sales. But this could change rapidly. One estimate prepared by Drs. Bruce and Fox at the University of Tennessee shows that combined state and local government revenue losses from E-commerce in the U.S. could rise from \$2.7 billion this year to \$10.8 billion in 2003. This same study reports that Idaho losses would be \$36 million in 2003. Like most new technologies, the promises of the Internet may have been exaggerated. This does not mean it will not be a major part of our lives, but it will take a little longer to get there. This added time should be used to find solutions to the challenges that will also be part of the Internet.

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## General Fund Update

As of October 31, 2000

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY01 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,022.1	275.2	287.4
Corporate Income Tax	136.4	38.2	30.5
Sales Tax	665.7	233.9	230.7
Product Taxes <sup>1</sup>	20.6	7.2	7.2
Miscellaneous	106.6	35.9	56.5
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>1,951.4</b>	<b>590.4</b>	<b>612.3</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2000

General Fund revenue (\$26.6 million) was substantially higher than expected in October. This was primarily the result of unusually large estate tax receipts and has brought year-to-date General Fund revenue to a level of \$21.9 million higher than the predicted amount. Revenue collections among the big three items (Individual Income, Corporate Income, and Sales Taxes) were almost a wash with continued strength in the Individual Income Tax offset by weaknesses in the Corporate Income and Sales Taxes.

Individual income tax collections in October were \$4.2 million higher than expected. This was due to a combination of higher-than-predicted filing payments (\$0.9 million), higher-than-predicted withholding collections (\$2.8 million), and lower-than-predicted refunds (\$0.2 million). The Individual Income Tax is now \$12.2 million higher than expected for the first four months of the fiscal year, and almost all of this excess is attributable to stronger-than-anticipated withholding collection. Withholding collections are up 14.8% so far in FY 2001, versus an expected increase of 10.3%.

The Corporate Income Tax was lower than expected for the fourth consecutive month, but October's shortfall of \$0.9 million was the smallest so far this fiscal year. Once again, quarterly estimated payments were the primary source of weakness, coming in \$1.9 million lower than expected. Filing collections were \$0.5 million lower than expected in October. Refund payments were actually \$1.4 million lower than expected, partially offsetting the receipt weakness.

Sales tax collections were \$3.0 million lower than expected in October, bringing fiscal year-to-date collections to a level \$3.2 million below the predicted amount. This is the second month the sales tax has come in below expectations this fiscal year. Weakening residential construction activity in Idaho appears to be the primary reason for this shortfall.

Product Taxes came in slightly below the expected amount in October, bringing the year-to-date level exactly on target. Miscellaneous Revenue was a whopping \$26.5 million higher than expected for the month of October. Most of this was due to a \$21 million windfall in estate taxes. This is the first such receipt to the General Fund, since estate tax has only been distributed to the General Fund since July 1, 2000. Previously, this revenue item was distributed to the Water Pollution Control Fund. The other large element of October's strength in this category was interest earnings that came in \$3.6 million above the expected amount.